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TO RUEHC/SECSTATE WASHDC PRIORITY 6065  
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RUEHBU/AMEMBASSY BUENOS AIRES 4132  
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RUEHSG/AMEMBASSY SANTIAGO 5622  
RUEHPE/AMEMBASSY LIMA 3077  
RUEHLP/AMEMBASSY LA PAZ 4713  
RUEHBO/AMEMBASSY BOGOTA 3835  
RUEHCV/AMEMBASSY CARACAS 3338  
RUEHQH/AMEMBASSY QUITO 1889  
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SUBJECT: PROSPECTS FOR BRAZIL'S MERCOSUL PRESIDENCY

REF: A. Buenos Aires 1566

[1B.](#) Brasilia 918  
[1C.](#) Montevideo 567  
[1D.](#) Brasilia 786

[11.](#) (SBU) Summary. Recently, Econoffs met with Julio Laranjeiras, Counselor for Mercosul at the Ministry of External Relations to discuss Brazil's ambitious and hopeful integration agenda during its 5-month tenure as Mercosul pro tempore president starting August 1. Brazil plans to, among other things, move forward the USD 100M Infrastructure Fund and promote Fasttrack-like trade promotion authority. Venezuela's recent entrance into the trade bloc, Paraguayan and Uruguayan complaints about lack of influence over decision-making, and disputes and GOB fissures over the usefulness of Mercosul to Brazil as a whole, will all weigh heavily on Brazil's short 5-month tenure. Despite these and a multitude of other issues, the Ministry of External Relations remains upbeat about its chances of progressing a truly supranational agenda. Given the myriad challenges confronting Mercosul, post is not so hopeful. End Summary.

An Ambitious Agenda

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[12.](#) (U) On July 11, Econoff and Econ Assistant spoke to Julio Laranjeiras, Counselor for Mercosul at the Ministry of External Relations (MRE), about what he called a critical moment in Mercosul's 15-year history. On August 1, Brazil will take the reins for 5 months as pro tempore president of the trade bloc. According to Laranjeiras, Brazil has an ambitious agenda, but will concentrate on two specific issues. First, a key priority will be the institutionalization of the USD 100 million Infrastructure Fund to improve roads, bridges, port facilities and standards institutions in the most underdeveloped areas of the bloc (i.e., Paraguay and

Uruguay). These improvements are intended to facilitate trade by reducing the time needed to get products to market and improving the end-products made in bloc countries, he said. Brazil's second priority is the development of Fasttrack-like authority in each of the participant states to ease incorporation of Mercosul standards and regulations. Currently, Mercosul regulations require member country Parliamentary approval, which can be a lengthy process.

13. (SBU) While the main priorities are in themselves ambitious, Brazil also looks to move forward on broader issues. Specifically, Brazil would also like to make progress in eliminating double taxation of goods within the bloc, that is, elimination of taxes paid twice on goods imported into one member country and subsequently re-exported to another. The bloc has, on a trial basis, eliminated double taxation on zero tariff items to accustom countries to the idea, he noted. Another item Brazil would like to pursue is the establishment of safeguards against hoof and mouth disease, given the importance to member nations of meat exports. According to Laranjeiras, all of the measures get to the heart of what Mercosul needs--achieving supranationality. Brazil remains hopeful that its presidency can set the tone for a higher level of trust among member states and put an end to the beauty contest nature of the trade bloc's rotating presidency. Laranjeiras acknowledged that Brazil's presidency faces intra-GOB and inter-Mercosul challenges, but declared that Brazil hopes its focus items will allow internal and external critics to better understand the long run benefits of Mercosul.

#### Internal Strife: Dissent from Other Ministries

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14. (SBU) Laranjeiras admitted that most parts of the GOB,

BRASILIA 00001440 002 OF 003

especially in the Lula administration, regard Mercosul as an Itamaraty/Presidency project, bringing no immediate benefit to Brazil. Skepticism has increased as Brazil heads into its presidential election season. He specifically named the Ministry (and Minister) of Finance as an obstacle, but hinted that Minister of Development, Industry and Commerce Furlan has been unhelpful as well. The Finance Ministry objects to Brazil providing 70 percent of the Mercosul Infrastructure Fund, while other countries in total will provide only 30 percent (Note: The USD 70 million has been allocated from Brazil's 2007 budget). When pressed, Laranjeiras mentioned that other ministries had complained that underdeveloped areas in Brazil's northeast will get short shrift compared to needy areas in Paraguay and Uruguay. He also mentioned complaints that the money could be better used in addressing the serious income disparities within Brazil. Finally, he has also heard from other GOB officials that politically Brazil is focused excessively on external affairs and needs to refocus on internal Brazilian problems.

#### External Strife: Paraguay, Uruguay and Argentina and...

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15. (SBU) As Laranjeiras noted, Brazil seeks to level the field for current members at a time when Paraguay and Uruguay have once again asserted that they have seen little to no profit from membership in the bloc and that Argentina and Brazil reap all the benefits. Paraguay has complained bitterly that non-tariff barriers keep its products out of the largest target market - Brazil. The Infrastructure fund, which would target funds for technical assistance, is meant to address this complaint. Since Brazilian exports must meet technically higher standards for U.S. and European markets, the GOB does not contemplate lowering its own to accommodate Paraguay or Uruguay, but instead helping the two countries raise their capacity to produce at the requisite level. In Laranjeiras' opinion, Uruguay's threat to sign a Free Trade Agreement with the U.S. is plain bluster. He said that his contacts in Montevideo informed him that Uruguay is nowhere close to completing the requirements for a trade deal, lacking the capacity and political will to do so. Meanwhile, Uruguay remains at odds with Argentina regarding the cellulose processing plants along their common border, the construction of which the International Court of

Justice has ruled need not be stopped.

**¶16. (U)** For its part, although still with observer status, Chile has weighed in on the future of the trade bloc by pointing the finger at Argentina as a divisive force. This complaint comes after Buenos Aires proposed price increases for foreigners who drive to Argentina to buy gasoline and in the wake of speculation that Argentina will raise the price of natural gas exports to Chile. Bolivia, another Mercosul observer, has not endeared itself to the bloc due to its recent oil and gas nationalization and its threatened expulsion of foreigners and seizure of foreign-owned (mostly by Brazilians) Bolivian farm land.

**External Strife: Venezuela**

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**¶17. (SBU)** Amidst all the strife enters Mercosul's newest member state, Venezuela. Overall, Laranjeiras regards Venezuela's recent ascension to membership as positive for all of South America, signaling cooperation and engagement instead of isolation. Laranjeiras noted that according to Brazilian trade experts, Venezuela's trade structures are better aligned with Brazil and Argentina than other current members. He also expressed surprise at how quickly Venezuela moved to accept the terms of accession, saying that frankly, everyone expected the process to take much longer. He believed that this indicated seriousness about Venezuela's engagement that Brazil had not seen before. According to

BRASILIA 00001440 003 OF 003

Laranjeiras, a big benefit to Mercosul is the obvious bankroll that Chavez seems to be willing to share with his neighbors, especially at a time when the trade bloc needs an injection of funds. When pressed on whether Chavez would use his petro-dollar-backed might to undercut Brazil's and (to some extent) Argentina's influence in the bloc, Laranjeiras was silent. He also had no answer as to whether Brazil saw the possibility of Chavez using Mercosul to further his PetroCaribe agenda. Engaging Venezuela was simply meant to bring a rogue player into the democratic fold and to broaden the economic base to further the Mercosul integration agenda. Laranjeiras was adamant that Mercosul would not allow Chavez to flout democratic rules for participation. Any anti-democratic behavior on Venezuela's part would be met with expulsion from the bloc.

**Comment**

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**¶18. (SBU)** To put it kindly, Brazil's view of its upcoming tenure is sunny at best. The culmination of disputes between the larger and smaller players, the infighting among neighbors, the entrance of Venezuela and outright hostilities between observer countries and member countries, mean that Brazil will enter a volatile situation that will likely worsen. Still smarting from what was largely read as a misstep in its handling of Bolivia's nationalization of oil and gas resources, the Ministry of External Relations will need a deliverable to deflect the harsh light detractors within the GOB will shine on any and all Mercosul activity during the next five months. Taking over after Argentina's rocky pro tempore presidency means Brazil is climbing up a very steep hill and will need more than hope to emerge from its own upcoming presidency of Mercosul unscathed. End Comment.

WILLIAMSON